

STATE OF SOUTH CAROLINA

(Caption of Case)

Application of May River Water Company, Inc. for
Adjustment of Rates and Charges and Modifications
of Certain Terms and Conditions for the Provision of
Water Service

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 2010 - 132 - W

(Please type or print)

Submitted by: Margaret M. Fox, EsquireSC Bar Number: 65418Address: McNair Law Firm, P. A.Telephone: 803-799-9800P. O. Box 11390Fax: 803-753-3219Columbia, SC 29211

Other: _____

Email: pfox@mcnair.net

NOTE: The cover sheet and information contained herein neither replaces nor supplements the filing and service of pleadings or other papers as required by law. This form is required for use by the Public Service Commission of South Carolina for the purpose of docketing and must be filled out completely.

DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition☐ Request for item to be placed on Commission's Agenda expeditiously☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input checked="" type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input checked="" type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other: _____
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other: _____	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

Print Form

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MCNAIR
ATTORNEYS

Margaret M. Fox

pfox@mcnair.net
T (803) 799-9800
F (803) 753-3219

December 22, 2010

Ms. Jocelyn Boyd
Chief Clerk and Administrator
South Carolina Public Service Commission
Synergy Business Park, The Saluda Building
101 Executive Center Drive
Columbia, South Carolina 29210

Re: Application of May River Water Company, Inc. for Adjustment of Rates
and Charges and Modifications of Certain Terms and Conditions for the
Provision of Water Service
Docket No. 2010-132-W

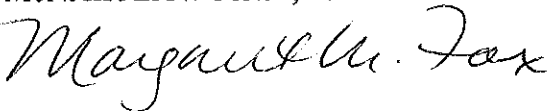
Dear Ms. Boyd:

Enclosed for filing in the above-referenced matter, please find the Surrebuttal
Testimony of Joseph Highsmith. By copy of this letter and Certificate of
Service all parties of record will receive a copy of this Surrebuttal Testimony
via the U. S. Postal Service. We will also electronically mail a copy to parties
of record before close of business today.

If you have any questions, please do not hesitate to contact me.

Very truly yours,

McNAIR LAW FIRM, P.A.



Margaret M. Fox
MMF/rwm

Attachment

cc: Parties of Record

McNair Law Firm, P. A.
1221 Main Street
Suite 1600
Columbia, SC 29201

Mailing Address
Post Office Box 11390
Columbia, SC 29211

mcnair.net

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-132-W**

IN RE:

Application of May River Water Company, Inc. for adjustment of rates and charges for the provision of water service.)	SURREBUTTAL TESTIMONY
)	OF JOSEPH HIGHSMITH
)	
_____)	

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Joseph Highsmith. My business address is 4 Executive Park Road,
3 Hilton Head, SC 29928.

4
5 **Q. ARE YOU THE SAME JOSEPH HIGHSMITH WHO PREFILED DIRECT**
6 **TESTIMONY IN THIS PROCEEDING?**

7 A. Yes, I am.

8
9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN**
10 **THIS PROCEEDING?**

11 A. The purpose of my surrebuttal testimony is to address some of the issues raised by
12 Thomas A. Smith, III in his Rebuttal Testimony filed on December 16, 2010.

13
14 **Q. WHAT IS YOUR OVERALL CONCERN WITH MR. SMITH'S REBUTTAL**
15 **TESTIMONY?**

16 A. Mr. Smith states that the quotes contained in my direct testimony "are all premised
17 upon the [May River Plantation Owners] Association operating the system itself."

(Smith Rebuttal at p. 3). While I did state in my Prefiled Direct Testimony that the May River Plantation Owners Association (“MRPOA”) was willing and able to take over operation of the system itself, Mr. Smith misunderstood the point of my testimony. The quotes I obtained were offered as evidence before the Commission that the costs alleged by May River Water Company (“MRWC”) are exorbitant and unreasonable. In fact, the range of services for which I obtained quotes (Exhibit JH-7) is taken verbatim from the quotes provided to WUM by outside contractors, with the one exception of “handling the next rate case, excluding legal fees.” The South Carolina cost estimates given in Exhibit JH-7 clearly show that the water system can be operated at a much lower cost than MRWC is proposing, using either their own WUM management or their Georgia contractors. Not only do the cost estimates I obtained demonstrate this, but MRWC’s own history does as well. MRWC’s predecessor and parent company, South Atlantic Utilities, Inc., was granted a rate increase in 2007 based on substantially lower alleged costs for the May River system. While South Atlantic later separated MRWC’s operations into a separate company, the system is being operated today exactly the same as it was three years ago. There is absolutely no justification for the costs, particularly the “labor” expenses, to have increased exponentially during that time. These costs have suddenly risen from an “overhead allocation” of \$3,866 to a conveniently even “contract labor – WUM LLC” (management) fee of \$27,000, which does not include “rents” and other contract labor, two other new entries to their income statement that were never shown before. The same people are performing the same functions. Our quotes demonstrate that MRWC’s labor expense, which amounts to a largely still unexplained and poorly documented lump sum paid as a “management fee” to an affiliated company, is

1 exorbitant and unreasonable. Our quotes also provide the basis on which MRWC
2 could operate the well if they chose South Carolina contractors instead of doing
3 business with themselves at inflated cost levels.

4
5 **Q. MR. SMITH'S TESTIMONY SUGGESTS THAT THE QUOTES YOU**
6 **SOLICITED DID NOT REFLECT MAINTENANCE COSTS AND**
7 **THEREFORE ARE NOT COMPARABLE. DO YOU AGREE?**

8 A. No. Maintenance costs are not reflected in either the quotes we obtained, or in the
9 quotes for "contract labor-WUM LLC" line item for \$27,000. Again, the South
10 Carolina services, quoted in my previous testimony, mirror the same services to be
11 provided by the Georgia companies.

12
13 **Q. ARE YOU ASKING THE COMMISSION TO ALLOW MRPOA TO TAKE**
14 **OVER THE SYSTEM?**

15 A. No. I am simply asking the Commission to deny May River Water Company's
16 request for a rate increase. The request is excessive and unreasonable, and would
17 almost quadruple the current rates paid by residents of May River Plantation, and
18 would clearly constitute "rate shock." There does not appear to be any precedent for
19 a rate increase of that magnitude in South Carolina. MRWC has also asked to double
20 its "availability fees," from \$16.00 to \$32.00 per month. I believe this should be
21 rejected as well, as there has been no justification whatsoever for such an increase.
22 Further, for no apparent reason, MRWC would have you believe that expenses after
23 some 36 years of running this well system have suddenly jumped from a
24 Commission-approved amount of \$4,955 prior to their rate case of 2007 to \$10,706

1 in 2006 and now to \$34,682 in 2009 as stated in their application. I find this to be
2 truly unacceptable and contend that MRWC has fabricated these numbers for the
3 purpose of obtaining a rate increase or forcing the MRPOA to purchase this system at
4 an exorbitant price. While they continue to drum up high legal expenses to “justify”
5 these numbers, the end result is that the customer is forced to pay for their
6 mismanagement. I can see no reason for any change in the expense structure of a
7 system that has had little or no improvements made in over 36 years.
8

9 **Q. MR. SMITH’S TESTIMONY LISTS A NUMBER OF REGULATORY**
10 **REQUIREMENTS WITH WHICH MRWC IS REQUIRED TO COMPLY,**
11 **AND SUGGESTS THAT THE DIFFERENCE BETWEEN YOUR ESTIMATES**
12 **AND THE COMPANY’S COSTS ARE A FUNCTION OF BEING A**
13 **REGULATED COMPANY. DO YOU AGREE?**

14 **A.** No. While there may be some costs associated with being regulated by the
15 Commission, they would be minimal and would not justify the vast difference
16 between the estimates I obtained and the costs asserted by the Company. Many of the
17 items noted by Mr. Smith are record-keeping requirements, and many of them
18 (maintaining a documented safety program, maintaining a documented emergency
19 response plan, maintaining a documented maintenance plan, maintaining maps, etc.)
20 would involve very little time and would be good business practice even in the
21 absence of regulatory requirements. Again, MRWC’s parent company claimed costs
22 very recently, in its 2007 rate case, for operating the water system that were much
23 more in line with the estimates I obtained than with what they are proposing before
24 you today.

1

2 **Q. IN MR. SMITH'S TESTIMONY, HE STATES THAT DURING THE**
3 **PREVIOUS YEAR, MRWC HAS ENGAGED IN DISCUSSIONS WITH THE**
4 **MRPOA ABOUT PURCHASING THE SYSTEM AND SUGGESTS THAT**
5 **THE MRPOA HAS NOT RESPONDED. DO YOU AGREE?**

6 A. No. The MRPOA has made a reasonable and good faith offer to purchase the system
7 from MRWC, and is ready, willing and able to operate the system on its own behalf
8 in accordance with all regulations. MRWC has since countered with a "final and
9 best" offer at a substantially higher and unjustified level. It is clear from Mr. Smith's
10 testimony that MRWC is using this rate case and the threat of exorbitant water bills to
11 coerce MRPOA into paying more than fair value for the system.

12

13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 A. Yes, it does.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF
SOUTH CAROLINA

Docket No. 2010-132-W

IN RE: Application of May River Water Company, Inc.)
 for Adjustment of Rates and Charges and)
 Modification to Certain Terms and Conditions)
 for the Provision of Water Service)

**CERTIFICATE OF
SERVICE**

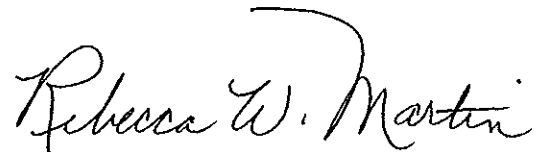
I, Rebecca W. Martin, do hereby certify that I have this date served one (1) copy of the attached Surrebuttal Testimony of Joseph Highsmith upon the following parties causing said copies to be electronically mailed and deposited with the United States Postal Service, first class postage prepaid and properly affixed thereto, and addressed as follows:

Thomas A. Smith, III, Manager
May River Water Company, Inc.
Post Office Box 13705
Savannah, Georgia 31416
tom@waterutilitymanagement.com

Shealy Boland Reibold, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, South Carolina 29201
sreibol@regstaff.sc.gov

Jeffrey M. Nelson, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, South Carolina 29201
jnelson@regstaff.sc.gov

Benjamin P. Mustian, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, South Carolina 29202
bmustian@willoughbyhoefer.com



Rebecca W. Martin, Legal Assistant
McNAIR LAW FIRM, P.A.
Post Office Box 11390
Columbia, South Carolina 29211
(803) 799-9800

December 22, 2010

Columbia, South Carolina